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SUBJECT: TRADE MINISTER FORESHADOWS FTA RED LINES

REF: LIMA 3888

11. (SBU) Summary: In meetings with the Ambassador, Trade Minister Ferrero and Peru's Chief FTA Negotiator de la Flor highlighted two red lines for Peru in the U.S.-Andean FTA negotiations. They warned that Peru's Congress would not accept an FTA that permitted the importation of used clothing or went beyond CAFTA's intellectual property commitments. De la Flor did note that Peru is prepared to accept data protection provisions in the CAFTA deal. On the public diplomacy front, Ferrero lamented that representatives from the private sector are not more vocal in their support of the FTA. The Ambassador noted that he planned to host a meeting with business association leaders to bolster FTA public outreach. The Ambassador also expressed concern about timing for solving the Engelhard dispute. End Summary.

12. (SBU) The Ambassador met separately with Trade Minister Alfredo Ferrero and later with Peru's FTA Chief Negotiator Pablo de la Flor and Agriculture Negotiator Julio Paz on September 28 to review progress in the U.S.-Andean FTA negotiations. The Ambassador described his recent trip to Washington, including Capitol Hill, where President Toledo had left a positive impression during his visit there the week before. Noting the USG's desire to close the trade deal by November, the Ambassador expressed concern to Minister Ferrero about the resolution timing of the Engelhard dispute. The Ambassador noted that all Members of Congress raised Peru's commercial disputes. Ferrero took note.

#### Peruvian Show Stoppers

13. (SBU) Both the Trade Minister and Vice Minister de la Flor emphasized that Peru would not be able to go beyond the IPR coverage outlined in the CAFTA deal. Ferrero indicated that President Toledo and Peru's Congress would not accept a trade deal that included second-use patents, particularly since the accords with Central America and Chile omitted them. De la Flor added surgical techniques, plants and animals to the list of patents they could not support, but he noted that Peru could accept the data protection provisions in the CAFTA deal. The Chief Negotiator noted that while he wants to resolve the remaining contentious issue in the IPR group, Ecuador is slowing down the negotiations.

14. (SBU) A second red line for the Peruvians is used clothing. Both Ferrero and de la Flor emphasized that Peru's Congress would reject an FTA that permitted the importation of used clothes from the United States. They explained that Peru's internal market is small and could not absorb such importations. De la Flor emphasized that accepting used clothing would displace small apparel producers.

#### Countering Venezuela's Initiatives

15. (SBU) Minister Ferrero urged U.S. flexibility on the two above issues, arguing that concluding an FTA with Peru and Colombia is in the best interest of the United States. He noted that an FTA with the Andeans would bolster support for U.S. allies at a time when Ecuador and Bolivia are growing weaker and increasingly susceptible to Venezuela petroleum diplomacy and influence. The Minister noted that an Andean FTA that eventually included Ecuador and Bolivia would be a big blow to Chavez and Brazil.

#### FTA Debate Heating Up

16. (SBU) Ferrero lamented that the private sector is not doing more to express its support publicly for the FTA. He indicated that the GOP is reevaluating its FTA public affairs campaign, and wants to focus increasingly on radio coverage to promote the FTA. Citing a decline in FTA support from 65 to 53 percent between January-September polling data, the Ambassador indicated he planned to host a

meeting with business leaders to encourage coordinated and active FTA public outreach. The Minister welcomed the initiative.

17. (SBU) De la Flor publicly announced that he would be traveling to Washington with members of Peru's FTA team the week of October 3 to discuss Rules of Origin, Market Access, and Textiles. He prefers not to announce the bilateral digital video conference between agriculture negotiators on October 6 to review Peru's latest offer, which he described as superior to CAFTA and ready to close. The Ambassador stressed the further need for flexibility on the part of Peru's ag negotiators.

Comment: Crunch Time  
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18. (SBU) Eager to finish negotiations, the Peruvian negotiators are making clear in public statements that late November is the deadline to wrap up the FTA. Meanwhile, GOP officials increasingly fear opposition anti-FTA campaigns, which are picking up.

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